



# Regulatory information

## **KB reports increasing number of clients, solid growth in retail lending, and expanding volume of client assets under management**

### **Net profit improved thanks to low cost of risk**

- The number of Komerční banka's clients continued to grow. The Bank had 1,657,000 clients, which is 7,000 more than a year earlier.
- KB Group's lending to clients rose by 2.0% year on year to CZK 605.1 billion. Within this total, housing financing expanded by 7.9% and consumer lending grew by 6.4%.
- Standard client deposits grew by 9.7% from the year earlier to CZK 777.5 billion.
- Assets of KB Group's clients in mutual funds, pension savings and life insurance climbed by 8.3% to CZK 160.9 billion.
- In August, KB introduced a new range of current account packages to match the varying requirements of diverse clients.
- Recurring revenues reached CZK 23.1 billion, up 0.5%. Recurring operating costs grew by 1.4%. The Group reported a net release of provisions for loan losses amounting to CZK 0.2 billion.
- Recurring attributable net profit rose by 13.1% to CZK 10.3 billion. At CZK 11.2 billion, net profit including one-off contributions from revaluation and sale of headquarters this year and reimbursement for VISA Europe shares in 2016 was up by 5.5%.

Prague, 3 November 2017 – Komerční banka today reported its consolidated results as of 30 September 2017. Total gross loans to clients expanded by 2.0% to CZK 605.1 billion<sup>1</sup>. Within this total, housing financing expanded by 7.9% and consumer lending grew by 6.4%. Client deposits climbed by 9.7% to CZK 777.5 billion<sup>2</sup>. The volume of KB Group clients' assets in mutual funds, pension savings and life insurance rose by 8.3% to CZK 160.9 billion.

Revenues excluding last year's gain from disposal of KB's stake in VISA Europe were up slightly, rising 0.5% year on year to CZK 23.1 billion<sup>3</sup>. The revenues growth was due to hedging activity of clients relating to the CNB's April decision to eliminate the floor under the Czech crown's exchange rate. Meanwhile, net interest income and net fees and commission declined slightly. Recurring operating expenditures rose by 1.4%<sup>4</sup>, less than the rate of inflation. Strong repayment discipline among clients and successful recovery performance led to an extraordinary situation enabling a net release of provisions for loan losses of CZK 0.2 billion.

Recurring attributable net profit (i.e. excluding the one-off gains from disposals of KB's stakes in

<sup>1</sup> Excluding volatile reverse repo operations with clients. The total gross volume under 'Loans and advances to customers' expanded by 5.5% year on year to CZK 625.8 billion.

<sup>2</sup> Excluding repo operations with clients. The total volume of 'Amounts due to customers' moved up by 12.5% to CZK 797.1 billion.

<sup>3</sup> Reported revenues declined by 3.6% due to a one-off gain last year from sale of KB's stake in VISA Europe.

<sup>4</sup> Excluding the gain from restructuring the portfolio of headquarters buildings. Including this one-off item, reported operating expenditures decreased by 6.4% to CZK 9.8 billion.



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VISA Europe and in card payment processing subsidiary Cataps in 2016 as well as effects from revaluation and sale of headquarters buildings in 2017) increased by 13.1% to CZK 10.3 billion. The reported net profit attributable to shareholders advanced by 5.5% to CZK 11.2 billion.

*“The result for the first three quarters is influenced by the unusual situation on the Czech banking market, as the effects of the currency interventions are lasting. The balance sheets of Czech banks have swollen; Czech businesses have increasingly been funded in euros while they leave Czech currency in local banks. The competition to deploy the excessive liquidity in Czech crowns has intensified.”* remarked Jan Juchelka, KB’s Chairman of the Board of Directors and Chief Executive Officer.

*“We have pursued several new commercial undertakings during the third quarter. Most notably, the new range of account packages will better address the requirements of various clients with their different preferences. We also are preparing for the upcoming challenges stemming from regulation as well as a changing market situation,”* added Jan Juchelka.

Capital adequacy reached 16.8%. As of 30 September 2017, KB’s regulatory capital base was comprised solely of Core Tier 1 instruments. This was reinforced by a Tier 2 capital component on 9 October, as KB had disclosed in a separate announcement.

The Bank had 45,515 shareholders as of 30 September 2017, of which 40,326 were private individuals from the Czech Republic. Strategic shareholder Société Générale maintained its 60.4% stake, minority shareholders held 39.0% and KB held 0.6% of registered capital in treasury.



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## Comments on business and financial results

The published financial data are from unaudited consolidated results under IFRS (International Financial Reporting Standards).

## **BUSINESS PERFORMANCE OF KB GROUP**

### **Market environment<sup>5</sup>**

According to the activity indicators, the Czech economy continued to grow at a solid pace in the third quarter. That is despite increasing prevalence of company-wide holidays, mainly in the automotive sector. The growth continued to be driven mainly by domestic consumption, but fixed investments also added to that growth. Industrial output grew dynamically. Even construction picked up slightly, although civil engineering remained sluggish because the drawing of EU funds has not yet begun to accelerate.

The good state of the economy pushed down unemployment. The unemployment rate dropped to 3.8% in September. This decrease, in turn, exerted pressure for higher wages.

Inflation accelerated in September to 2.7% year on year, and the currency remained in a gradually appreciating trend. Through 30 September, the Czech crown had gained approximately 4% vis-à-vis the euro since the CNB had released the currency floor on 6 April 2017.

The Czech National Bank began raising its main 2-week repo rate on 2 August with a hike of 20 basis points. This was followed by another increase of 25 bps on 2 November. Gradually rising market interest rates reflected the mounting inflation and expected monetary policy tightening. As of 30 September, the 10-year interest swap rate had reached 1.62%, up 34 bps from the previous quarter. The short-term 3M PRIBOR rate had moved to 0.46% from the 0.30% seen as of 30 June.

The effects of the currency floor and the different phase of the interest rate cycle in the Czech Republic and euro zone were reflected in diminished attractiveness of the Czech crown as a funding currency for corporations. Only euro-denominated lending to non-financial corporations grew year on year on the Czech market while the volume of Czech crown loans decreased.

Total lending on the market grew at about a 5% pace. Lending to corporations, including from public sector, decelerated to 2% (excluding repo operations). In lending to individuals, the outstanding volume of housing loans continue to expand at a pace of around 9%. Growth in new mortgage sales slowed considerably after the CNB decreased the maximum loan-to-value of collateral (LTV) ratio for new mortgages to 90% in April. Consumer lending grew by 4%, which gain was modest given the good levels of consumer confidence.

The year-on-year growth rate of the deposit market remains well above 10%, but this is due to a strong inflow of liquidity into the country in the first quarter, before the end of currency interventions. The pace of total volumes of deposits in the banking system slowed down in the second and third quarters, but they did not see meaningful outflows.

### **Developments in the client portfolio and distribution networks**

At the close of September 2017, KB Group was serving 2.4 million clients on a consolidated basis. Standalone KB recorded 1,657,000 clients (+0.4% year on year), of which 1,400,000 were individuals. The remaining 258,000 customers were comprised of entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was attending to 478,000 customers, and the number of pension insurance participants at KB Penzijní společnost reached 533,000. ESSOX's services were being used by 196,000 active clients, and PSA Finance was

<sup>5</sup> Data sources for this section: Czech Statistical Office, Czech National Bank, KB Economic Research, unless stated otherwise. Comparisons are year on year.



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providing its services to more than 17,000 clients in the Czech Republic and Slovakia.

Komerční banka's clients had at their disposal 389 banking branches (including one branch for corporate clients in Slovakia), 765 ATMs (of which 198 were deposit ATMs), plus full-featured direct banking channels supported by two call centres. The number of clients using at least one direct banking channel (such as internet or telephone banking) reached 1,409,000 by the end of September 2017 and corresponds to 85.1% of all clients. Mobile banking was itself being used by more than 401,000 of KB's clients. Customers held 1,581,000 active payment cards, of which 187,000 were credit cards. The number of active credit cards issued by ESSOX came to 110,000. Modrá pyramida's customers had at their disposal 218 points of sale and approximately 1,000 advisors. SG Equipment Finance (SGEF) was providing its leasing services via nine branches (two of which are in Slovakia), as well as through KB's network.

## Selected business achievements and innovations

In August, KB introduced a new range of current account packages that match the varying requirements of diverse clients. The entry-level MůjÚčet provides at no fee a current account accessible on-line or at the branches, a contactless payment card, withdrawals from KB ATMs and receipt of incoming payments. MůjÚčet Plus is for clients who want to have included also electronic transactions and withdrawals even from ATMs of other banks. Finally, MůjÚčet Gold is for clients who will appreciate additional features, such as worldwide ATM withdrawals, travel insurance covering the whole family, assistance services and much more.

Newly from July, KB clients can authorise transactions in mobile banking using their fingerprint. For some time already, clients have been able to use fingerprint login for the mobile banking application.

Komerční banka was awarded the title of Best Private Bank in the Czech Republic in the PWM / The Banker Global Private Banking Awards 2017 presented by the prestigious magazines from The Financial Times group.

## Loans to customers

The total **gross volume of loans to clients** rose by 2.0% year on year to CZK 605.1 billion<sup>6</sup>.

In lending to individuals, the overall volume of housing loans<sup>1</sup> grew by 7.9% from the year earlier. Within this total, the portfolio of mortgages to individuals expanded by 7.4% to CZK 216.0 billion. Modrá pyramida reported growth of its portfolio by 10.1% to CZK 42.0 billion. The volume of KB Group's consumer lending (provided by the Bank, ESSOX and PSA Finance in the Czech Republic and Slovakia) was up by 6.4% to CZK 37.1 billion.

The total volume of **loans** provided by KB Group **to businesses** declined by 2.8% year on year to CZK 308.8 billion. Lending to small businesses grew by 4.8% to CZK 33.9 billion. The overall volume of credit granted by KB to medium-sized and large corporate clients in the Czech Republic and Slovakia (inclusive of factor finance outstanding at Factoring KB and business lending by PSA Finance), at CZK 249.8 billion, was lower by 4.0%. This drop is a consequence of the extraordinary market situation described above. At CZK 25.0 billion, the total credit and leasing amounts outstanding at SGEF were down by 0.6% year over year.

## Amounts due to customers and assets under management

The overall **volume of client deposits** within KB Group rose by 9.7% year on year to CZK 777.5

<sup>6</sup> Excluding volatile reverse repo operations with clients. The total gross volume under 'Loans and advances to customers' expanded by 5.5% year on year to CZK 625.8 billion.



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billion<sup>7</sup>.

Deposits at Komerční banka from individual clients grew by 13.9% from the year earlier to CZK 245.7 billion. The deposit book at Modrá pyramida contracted by 2.6% to CZK 62.5 billion. Total deposits from corporations and other businesses climbed by 7.1% to CZK 452.9 billion.

Client assets managed by KB Penzijní společnost were higher by 7.8%, at CZK 52.2 billion. Technical reserves in life insurance at Komerční pojišťovna expanded by 3.0% to CZK 47.6 billion. The volumes in mutual funds held by KB Group clients grew by 13.2% to CZK 61.0 billion.

## FINANCIAL PERFORMANCE OF KB GROUP

### Income statement

Komerční banka's revenues (**net banking income**) for the first nine months of 2017 declined by 3.6% year on year to CZK 23,126 million. This comparison was markedly influenced by the gain last year from reimbursement for KB's stake in VISA Europe Ltd. Excluding this one-off impact, the revenues were up by 0.5%. This growth was driven by net gains from financial operations even as net interest income and net fees and commissions declined.

**Net interest income** was down by 1.8% to CZK 15,485 million. Market interest rates began gradually increasing, but this was not yet reflected in the prices of loans. The market was over-liquid and competition in lending intensified. Loan spreads thus declined. Growth in credit volumes decelerated. The positive effect of rising rates on yields from reinvestment of deposits was still relatively small. The net interest margin, computed as the ratio of net interest income to interest-earning assets reported on the balance sheet, narrowed to 2.2% in the nine months of 2017 from 2.5% one year earlier.

**Net fees and commissions** were lower by 5.9%, at CZK 4,783 million. The decline was mainly due to a gap in (transaction) fees from card acquiring after KB sold in 2016's third quarter a majority stake in Cataps, its provider of merchant acquiring services. Excluding this effect, the numbers of payment transactions increased, in particular in the area of card and foreign payments. Also, the number of the Bank's clients continued to climb, but the fee income from deposit products decreased as more rewards were paid out within the loyalty programme and the number of old contracts at Modrá pyramida diminished. Fees for mortgages declined, and loan fees at ESSOX were lower in connection with the new Consumer Credit Act and with acquisition of PSA Finance. Modrá pyramida recorded lower fees for loan prepayments. Service margins at Factoring KB declined due to intense competition. Fees from cross-selling rose as the volume of assets under management continued to grow. Fees from specialised financial services were stable.

**Net gains from financial operations** were higher by 32.2% when excluding the gain from divestment of KB's stake in VISA Europe in 2016. The non-adjusted result was down 9.9%, at CZK 2,714 million. This year's result was boosted by clients' exceptionally strong currency hedging activity before and shortly after the CNB eliminated its floor under the CZK exchange rate on 6 April. Demand for currency hedging weakened visibly in summer, as many clients had their exposures pre-hedged. Summer holiday season also affected demand for hedging of interest rate risks, but increasing volatility of market rates brought a certain recovery in September. The fees and commissions from FX transactions were boosted by expanding foreign transactions turnover. Average prices for executing those transactions have somewhat decreased, however.

Recurring **operating expenditures** rose by 1.4% to CZK 10,659 million. Within this total, personnel expenses were higher by 5.3%, at CZK 5,517 million, due to increase in average remuneration and a new contribution to the employee shareholder ownership plan. The average number of employees stood at 8,469, virtually unchanged from a year earlier. General administrative expenses (excluding

<sup>7</sup> Excluding volatile repo operations with clients. The total volume of 'Amounts due to customers' climbed by 12.5% to CZK 797.1 billion.



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the regulatory funds) were up by 2.3% to CZK 3,132 million. The Group spent more in relation to real estate operations and it undertook certain marketing activities earlier in the year than previously. On the other hand, last year's sale of merchant acquiring services (Cataps) brought some savings of costs. The cost of contributions to the regulatory funds (Deposit Insurance Fund, Resolution Fund) reached CZK 858 million, 2.2% less year on year. The recurring 'Depreciation, impairment and disposal of assets' was down by 13.9%, at CZK 1,152 million, mainly due to completed amortisation of certain software that was offset only in part by introduction of new software and reflecting sales of some buildings in the held-for-sale portfolio. In 2017's first quarter KB had realised a net gain from the sale and revaluation of a part of the portfolio of headquarters buildings, which was reduced from four buildings to three. The reported amount on the line 'Depreciation, impairment and disposal of assets' thus includes a contribution of CZK 817 million. Including these one-off items, reported operating expenditures decreased by 6.4% to CZK 9,841 million.

Recurring gross **operating income**, excluding one-off items booked last year in net profit from financial operations (VISA Europe) and this year in operating expenditures (headquarters buildings), was almost flat (-0.3%) at CZK 12,467 million. Reported gross operating income for the first nine months of 2017 was down by 1.3%, at CZK 13,285 million.

The **cost of risk** was influenced by favourable economic conditions in the Czech Republic, successful recovery performance at the Bank as well as subsidiaries, and a low volume of newly defaulted exposures. This led to an extraordinary opportunity for a net release of provisions in the amount of CZK 228 million. That compares to net provisions creation of CZK 1,225 million a year earlier. This translates into -5 bps in relative terms<sup>11</sup> as measured over the average volume of the lending portfolio in 2017's first three quarters.

Income from shares in associated undertakings decreased by 80.8% due to last year's gain from sale of the stake in card payment processing subsidiary Cataps. Excluding this one-off item, income from associates (essentially Komerční pojišťovna) was up by 22.1% to CZK 166 million.

**Income taxes** increased by 1.0% to CZK 2,192 million. If the tax effect of the one-off items were to be excluded, income taxes would be up by 14.2%.

KB Group's consolidated net profit for the three quarters of 2017 was higher by 5.0% in comparison with the prior-year period, at CZK 11,487 million. Of this amount, CZK 262 million was profit attributable to holders of minority stakes in KB's subsidiaries (-10.9% versus the year earlier).

Reported **net profit attributable to the Bank's shareholders** totalled CZK 11,225 million, which is 5.5% more than in the nine months of 2016. **Recurring attributable net profit** (i.e. excluding the one-off gain from the disposal of KB's stake in VISA Europe and in Cataps in 2016 as well as effects from revaluation and sale of headquarters buildings in 2017) increased by 13.1% to CZK 10,328 million.

### Statement of financial position

The comparison period for the balance sheet under IFRS is the end of the previous year. Therefore, unless indicated otherwise, the following text provides a comparison with the close of 2016.

As of 30 September 2017, KB Group's **total assets** had risen by 14.9% for the year to date to CZK 1,060.4 billion.

Cash and current balances with central banks went down by 17.9% to CZK 92.1 billion. A large component of this item is comprised of liquidity reserves at central banks.

Amounts due from banks almost tripled to reach CZK 202.8 billion. The majority of this item consists in reverse repos with the central bank. At the repo tenders, the 2W repo rate serves as the maximum limit rate while overnight deposits with the central bank recorded in the line 'Cash and current balances with central banks' earn the discount rate (5 bps).



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Financial assets measured at fair value through profit or loss (trading securities and derivatives) decreased by 32.0% to CZK 20.2 billion.

Total net loans and advances to customers grew by 5.7% in comparison with the end of the previous year to reach CZK 613.0 billion. The gross amount of loans and advances to customers<sup>III</sup> was up by 5.1% to CZK 625.8 billion and included CZK 20.7 billion of reverse repo transactions with clients. The share of standard loans within that total climbed to 95.4% (CZK 596.8 billion), while the proportion of loans rated watch was 1.5% (CZK 9.1 billion). Loans under special review (substandard, doubtful and loss) comprised 3.2% of the portfolio and totalled CZK 20.0 billion. The volume of provisions created for loans reached CZK 13.7 billion. That was 12.0% less than at the close of 2016.

The portfolio of securities available for sale (AFS) dropped by 9.3% to CZK 35.7 billion. Within this portfolio, debt securities comprised CZK 35.5 billion. These included CZK 17.5 billion in Czech government bonds plus foreign government bonds of CZK 7.5 billion. The volume of securities in the held-to-maturity (HTM) portfolio diminished by 8.5% to CZK 59.9 billion. Within this portfolio, Czech government bonds constituted CZK 50.1 billion and foreign government bonds CZK 9.8 billion.

The net book value of tangible fixed assets declined by 0.2% to CZK 6.7 billion, while that of intangible fixed assets added 9.0% to reach CZK 4.2 billion. Goodwill, which primarily derives from the acquisitions of Modrá pyramida, SGEF and ESSOX, remained unchanged at CZK 3.8 billion.

**Total liabilities** were 17.6% higher in comparison to the close of 2016 and reached CZK 961.3 billion. Amounts due to customers rose by 14.0% to CZK 797.1 billion. This total included CZK 19.6 billion of liabilities from repo operations with clients and CZK 7.2 billion of other payables to customers. Despite a decrease in depository bills of exchange, the volume outstanding of issued securities was greater by 12.1%, at CZK 15.1 billion. That growth was driven by issuance of mortgage bonds. The Group's **liquidity** as measured by the ratio of net loans to deposits was 76.2% (compared to 81.6% as of 30 September 2016).

**Shareholders' equity** declined year to date by 6.0% to CZK 99.1 billion as accumulation of undistributed profit was more than offset by decrease in accounting gains from revaluation of cash flow hedges. KB holds the cash flow hedges until their maturity. At maturity, fair value of the hedges is zero. Revaluation of cash flow hedges and AFS bonds during their lives is driven by changes of respective interest rates and, for bonds, credit spreads. The benchmark 10-year interest swap rate had risen to 1.62% by 30 September 2017 from 0.87% on 31 December 2016. AFS revaluation gains were also influenced by gradual amortisation of securities reclassified from the AFS to the HTM portfolio in 2014.

As of 30 September 2017, KB held in treasury 1,193,360 of its own shares constituting 0.63% of the registered capital.

**Consolidated regulatory capital** for the capital adequacy calculation stood at CZK 75.5 billion as of 30 September 2017. KB Group's regulatory capital was composed solely of Core Tier 1 equity. The **capital adequacy** (as well as the Core Tier 1 capital ratio under Basel III standards) stood at 16.8%. As from 1 January 2017, the regulators require Komerční banka to keep the total capital adequacy ratio at or above 15.4%. In June 2017, the Czech National Bank announced that, with effect from 1 July 2018, it will increase the countercyclical capital buffer, part of the total capital requirement, by 50 basis points to 100 basis points. On 9 October 2017, KB accepted a subordinated debt in the volume of EUR 100 million with 10 year maturity and a repayment option after 5 years, as specified in a separated announcement. This transaction will reinforce KB's capital adequacy ratio in the fourth quarter by approximately 58 basis points, subject to approval by the Czech National Bank with its inclusion as a Tier 2 capital component.

As measured by the Liquidity Coverage Ratio, KB's liquidity throughout the first nine months of 2017 safely met requirements established by the applicable regulations.



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## Changes in corporate governance

Given expiration of Mr Albert Le Dirac'h's term of office as Chairman of the Board of Directors on 2 August 2017, the Supervisory Board elected on 11 July 2017 Mr Jan Juchelka as a new member of the Board of Directors with effect from 3 August 2017. Furthermore, on 12 July 2017 the Board of Directors of Komerční banka, a.s. elected Mr Juchelka to be Chairman of the Board of Directors with effect from 3 August 2017.

The Supervisory Board also elected on 14 September 2017 Mr Didier Colin as a new member of the Board of Directors with responsibility for Risk Management, effective from 1 October 2017.



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**ANNEX:** Consolidated results as of 30 September 2017 under International Financial Reporting Standards (IFRS)

| Profit and loss statement<br>(CZK million, unaudited)                | Reported       |               |              | On a recurring basis |                |              |
|--|----------------|---------------|--------------|----------------------|----------------|--------------|
|  | 9M 2016        | 9M 2017       | Change y-o-y | 9M 2016              | 9M 2017        | Change y-o-y |
| Net interest income  | 15,769         | 15,485        | -1.8%        | 15,769               | 15,485         | -1.8%        |
| Net fees and commissions   | 5,084          | 4,783         | -5.9%        | 5,084                | 4,783          | -5.9%        |
| Net gains from financial operations                                  | 3,012          | 2,714         | -9.9%        | 2,053                | 2,714          | 32.2%        |
| Other income   | 116            | 144           | 24.1%        | 116                  | 144            | 24.1%        |
| <b>Net banking income</b>  | <b>23,981</b>  | <b>23,126</b> | <b>-3.6%</b> | <b>23,022</b>        | <b>23,126</b>  | <b>0.5%</b>  |
| Personnel expenses   | -5,239         | -5,517        | 5.3%         | -5,239               | -5,517         | 5.3%         |
| General administrative expenses (excl. Resolution and similar funds) | -3,063         | -3,132        | 2.3%         | -3,063               | -3,132         | 2.3%         |
| Resolution and similar funds   | -877           | -858          | -2.2%        | -877                 | -858           | -2.2%        |
| Depreciation, impairment and disposal of assets                      | -1,338         | -335          | -75.0%       | -1,338               | -1,152         | -13.9%       |
| <b>Operating costs</b>   | <b>-10,516</b> | <b>-9,841</b> | <b>-6.4%</b> | <b>-10,516</b>       | <b>-10,659</b> | <b>1.4%</b>  |
| <b>Gross operating income</b>  | <b>13,465</b>  | <b>13,285</b> | <b>-1.3%</b> | <b>12,506</b>        | <b>12,467</b>  | <b>-0.3%</b> |
| Cost of risk   | -1,225         | 228           | +/-          | -1,225               | 228            | +/-          |
| <b>Net operating income</b>  | <b>12,240</b>  | <b>13,513</b> | <b>10.4%</b> | <b>11,281</b>        | <b>12,695</b>  | <b>12.5%</b> |
| Profit on subsidiaries and associates                                | 864            | 166           | -80.8%       | 136                  | 166            | 22.1%        |
| <b>Profit before income taxes</b>                                    | <b>13,105</b>  | <b>13,679</b> | <b>4.4%</b>  | <b>11,417</b>        | <b>12,861</b>  | <b>12.6%</b> |
| Income taxes   | -2,170         | -2,192        | 1.0%         | -1,988               | -2,271         | 14.2%        |
| <b>Net profit</b>  | <b>10,935</b>  | <b>11,487</b> | <b>5.0%</b>  | <b>9,429</b>         | <b>10,590</b>  | <b>12.3%</b> |
| Minority profit/(loss)   | 294            | 262           | -10.9%       | 294                  | 262            | -10.9%       |
| <b>Net profit attributable to the Bank's shareholders</b>            | <b>10,641</b>  | <b>11,225</b> | <b>5.5%</b>  | <b>9,135</b>         | <b>10,328</b>  | <b>13.1%</b> |

## Notes for results on a recurring basis:

9M 2016: Adjusted for sale of Cataps (CZK 728 million in 'Net profit from subsidiaries and associate's') and for payment received for KB's stake in VISA Europe Ltd (CZK 959 million in 'Net gains from financial operations', CZK -182 million in 'Income taxes').

9M 2017: Adjusted for net positive contribution from the sale and revaluation of KB's headquarters buildings (CZK 817 million in 'Depreciation, impairment and disposal of assets', CZK 79 million in 'Income taxes').



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| <b>Statement of financial position</b><br>(CZK million, unaudited) | <b>31 Dec<br/>2016</b> | <b>30 Sep<br/>2017</b> | <b>Change<br/>y-t-d</b> |
|--|------------------------|------------------------|-------------------------|
| <b>Assets</b>  | <b>922,737</b>         | <b>1,060,409</b>       | <b>14.9%</b>            |
| Cash and balances with central banks                               | 112,241                | 92,119                 | -17.9%                  |
| Amounts due from banks   | 51,771                 | 202,849                | 291.8%                  |
| Loans and advances to customers (net)                              | 580,198                | 613,015                | 5.7%                    |
| Securities   | 134,591                | 115,840                | -13.9%                  |
| Other assets   | 43,935                 | 36,587                 | -16.7%                  |
| <b>Liabilities and shareholders' equity</b>                        | <b>922,737</b>         | <b>1,060,409</b>       | <b>14.9%</b>            |
| Amounts due to banks   | 54,124                 | 98,533                 | 82.1%                   |
| Amounts due to customers   | 699,377                | 797,130                | 14.0%                   |
| Securities issued  | 13,423                 | 15,051                 | 12.1%                   |
| Other liabilities  | 50,412                 | 50,610                 | 0.4%                    |
| Shareholders' equity   | 105,400                | 99,086                 | -6.0%                   |
| <i>Of which:</i>   |                        |                        |                         |
| <i>Cash flow hedging</i>   | 11,379                 | 2,355                  | -79.3%                  |
| <i>Available-for-sale portfolio revaluation reserve</i>            | 3,424                  | 2,644                  | -22.8%                  |
| <i>Minority equity</i>   | 3,831                  | 3,715                  | -3.0%                   |

| <b>Key ratios and indicators</b>  | <b>30 Sep<br/>2016</b> | <b>30 Sep<br/>2017</b> | <b>Change<br/>year<br/>on<br/>year</b> |
|---|------------------------|------------------------|--|
| Capital adequacy (CNB)  | 15.0%                  | 16.8%                  | ▲                                      |
| Tier 1 ratio (CNB)  | 15.0%                  | 16.8%                  | ▲                                      |
| Total risk-weighted assets (CZK billion)                                | 443.0                  | 450.6                  | 1.7%                                   |
| Risk-weighted assets for credit risk (CZK billion)                      | 377.9                  | 380.8                  | 0.8%                                   |
| Net interest margin (NII/average interest-bearing assets) <sup>IV</sup> | 2.5%                   | 2.2%                   | ▼                                      |
| Loans (net) / deposits ratio <sup>V</sup>                               | 81.6%                  | 76.2%                  | ▼                                      |
| Cost / income ratio <sup>VI</sup>                                       | 43.9%                  | 42.6%                  | ▼                                      |
| Return on average equity (ROAE) <sup>VII</sup>                          | 13.8%                  | 15.2%                  | ▲                                      |
| Adjusted return on average equity (adjusted ROAE) <sup>VIII</sup>       | 16.8%                  | 16.9%                  | ▲                                      |
| Return on average regulatory capital <sup>IX</sup>                      | 21.3%                  | 20.3%                  | ▼                                      |
| Return on average assets (ROAA) <sup>X</sup>                            | 1.5%                   | 1.5%                   | ▼                                      |
| Earnings per share (CZK) <sup>XI</sup>                                  | 75                     | 79                     | 5.5%                                   |
| Average number of employees during the period                           | 8,473                  | 8,469                  | 0.0%                                   |
| Number of branches (KB standalone in the Czech Republic)                | 395                    | 388                    | -7                                     |
| Number of ATMs  | 762                    | 765                    | 3                                      |
| Number of clients (KB standalone)                                       | 1,650,000              | 1,657,000              | 0.4%                                   |



## Regulatory information

| <b>Business performance in retail segment – overview</b>                | <b>30 Sep 2017</b> | <b>Change year on year</b> |
|---|--------------------|----------------------------|
| Mortgages to individuals – volume of loans outstanding                  | CZK 216.0 billion  | 7.4%                       |
| Building savings loans (MPSS) – volume of loans outstanding             | CZK 42.0 billion   | 10.1%                      |
| Consumer loans (KB + ESSOX + PSA Finance) – volume of loans outstanding | CZK 37.1 billion   | 6.4%                       |
| Small business loans – volume of loans outstanding                      | CZK 33.9 billion   | 4.8%                       |
| Total active credit cards – number                                      | 187,000            | -4.6%                      |
| – of which to individuals   | 147,000            | -5.0%                      |
| Total active debit cards – number                                       | 1,394,000          | -1.3%                      |
| Insurance premiums written (KP)   | CZK 4.8 billion    | 0.4%                       |

### **Financial calendar for 2018:**

- 8 February 2018: Publication of full-year 2017 results
- 4 May 2018: Publication of 3M 2018 results
- 2 August 2018: Publication of 6M 2018 and 2Q 2018 results
- 8 November 2018: Publication of 9M 2018 and 3Q 2018 results



# Regulatory information

## Definitions of the performance indicators mentioned herein:

- I **Housing loans:** mortgages to individuals provided by KB + loans to clients provided by Modrá pyramida;
- II **Cost of risk in relative terms:** annualised 'Allowances for loan losses' divided by the average 'Gross amount of client loans and advances', year to date;
- III **Gross amount of client loans and advances:** 'Gross amount of client loans and advances' minus 'Other amounts due from customers';
- IV **Net interest margin (NIM):** 'Net interest income' minus 'Dividend income' divided by average interest-earning assets (IEA) year to date (IEA comprise 'Amounts due from banks', 'Current balances with central banks', 'Net loans and advances to customers', 'Financial assets at fair value through profit or loss' [debt securities only], 'Financial assets available for sale' [debt securities only], and 'Investments held to maturity' [debt securities only]);
- V **Net loans to deposits:** ('Net loans and advances to customers' less 'reverse repo operations with clients') divided by the quantity (total 'Amounts due to customers' less 'repo operations with clients');
- VI **Cost to income ratio:** 'Operating costs' divided by 'Net banking income';
- VII **Return on average equity (ROAE):** annualised 'Net profit attributable to equity holders' divided by the quantity average group 'Shareholders' equity' less 'Minority equity', year to date;
- VIII **Adjusted return on average equity (adjusted ROAE):** annualised 'Net profit attributable to equity holders' divided by the quantity average group 'Shareholders' equity' minus 'Minority equity' minus 'Cash flow hedging' minus 'Available-for-sale portfolio revaluation reserve', year to date;
- IX **Return on average regulatory capital:** annualised 'Net profit attributable to equity holders' divided by average group 'Regulatory capital', year to date;
- X **Return on average assets (ROAA):** annualised 'Net profit attributable to equity holders' divided by average 'Total assets', year to date;
- XI **Earnings per share:** annualised 'Net profit attributable to equity holders' divided by the quantity average number of shares issued minus average number of own shares in treasury.

## Reconciliation of 'Net interest margin' calculation, (CZK million, consolidated, unaudited):

| <i>(Source: Profit and Loss Statement)</i>   |                | 9M 2016        |                | 9M 2017        |
|--|----------------|----------------|----------------|----------------|
| <b>Net interest income (excl. 'Income from dividends')</b>   |                | <b>15,767</b>  |                | <b>15,482</b>  |
| <i>(Source: Balance Sheet)</i>   | 31 Dec 2015    | 30 Sep 2016    | 31 Dec 2016    | 30 Sep 2017    |
| 'Amounts due from banks' + 'Cash and current balances with central banks' (amounts due from central banks only)* | 164,778        | 191,799        | 155,016        | 286,537        |
| 'Loans and advances to customers', net   | 532,617        | 578,272        | 580,198        | 613,015        |
| 'Financial assets at fair value through profit or loss' (debt securities only)*                                  | 7,872          | 10,563         | 9,606          | 2,454          |
| 'Financial assets available for sale' (debt securities only)*  | 41,189         | 39,840         | 39,238         | 35,522         |
| 'Investments held to maturity' (debt securities only)  | 67,083         | 64,219         | 65,462         | 59,901         |
| <b>Interest-bearing assets</b>   | <b>813,540</b> | <b>884,693</b> | <b>849,520</b> | <b>997,428</b> |
| <b>Average interest-bearing assets, year to date</b>   |                | <b>849,116</b> |                | <b>923,474</b> |
| <b>NIM year to date, annualised</b>  |                | <b>2.5%</b>    |                | <b>2.2%</b>    |

Note: \* These indicators are not individually provided in the report on financial results but they are presented as part of the respective aggregate items.